



Operation Twist

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Why in News

The **Reserve Bank of India** has announced that it will carry out **US-style 'Operation Twist'** to bring down interest rates.

Key Points

- RBI will conduct **simultaneous purchase and sale of government** securities under **Open Market Operations (OMO)** for ₹10,000 crore each.
- It will purchase the longer-term maturities (i.e government bonds maturing in 2029), and simultaneously sell the shorter duration ones (i.e. short-term bonds maturing in 2020).
- The eligible participants can bid or submit offers in electronic format on **RBI's Core Banking Solution (E-Kuber)**.

'Operation Twist'

- 'Operation Twist' is when the **central bank uses the proceeds from the sale of short-term securities to buy long-term government debt papers**, leading to **easing of interest rates on the long term papers**.
- Operation Twist first appeared in 1961 as a way to strengthen the U.S. dollar and stimulate cash flow into the economy.
- In June 2012, Operation Twist was so effective that the yield on the 10-year U.S. Treasury dropped to a 200-year low.

Open Market Operations

- Open Market Operations (OMO) is one of the **quantitative (to regulate or control the total volume of money) monetary policy tools** which is employed by the central bank of a country to **control the money supply in the economy**.

- OMOs are conducted by the RBI by way of **sale or purchase of government securities (g-secs)** to adjust money supply conditions.
- The central bank sells g-secs to remove liquidity from the system and buys back g-secs to infuse liquidity into the system.
- These operations are often conducted on a **day-to-day basis** in a manner that balances inflation while helping banks continue to lend.
- RBI carries out the OMO **through commercial banks** and **does not directly deal** with the public.
- The RBI uses OMO along with other monetary policy tools such as repo rate, cash reserve ratio and statutory liquidity ratio to adjust the quantum and price of money in the system.

Benefits

- This simultaneous purchase and sale will bring down interest on long term loans which can lead to **increase in economic spending**.
- OMOs are primarily done to maintain ample liquidity in the system, which reflects that the **RBI is keen that banks should transmit lower rates to borrowers.**
- The action of Operation Twist by the RBI is **encouraging for the market**. This step may become a **driving factor for long-term economic activity** and the addition of new investment stock.

Source: TH